



NOVEMBER 1950

# BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

## Summary

**Increased demand** for farm products indicates a very favorable outlook for agriculture in 1951. The enlarged defense program following the Korean outbreak strongly reinforces the encouraging forecasts made earlier in the year. (Page 1)

**Farm product prices** are expected to average 10 per cent higher in 1951 than in the current year, and cash receipts from farm marketings will be at least 10 per cent above the 1950 level. (Page 1)

**The financial position of farmers** improved in 1950 and is likely to show further improvement in 1951. Although farm debts are increasing, farm assets are rising more rapidly. Proprietors' equities in agriculture are at an all-time high, and a further increase is in prospect for the year ahead. (Page 2)

**Farm real estate values** increased rapidly in the last half of 1950, and the improved outlook for farm income may result in a further advance next year. (Page 3)

**Production costs** are rising, and the indicated 1951 total of nearly 20 billion dollars will be a record high. Farmers' interests, however, may center on shortages rather than the higher prices. (Page 3)

**Higher meat prices** are indicated. Increased consumer incomes and the transfer of some expenditures to meat as a result of shortages of consumer durables will more than offset the effects of increased meat supplies. (Page 4)

**Dairy farmers' income** will rise moderately as more of the milk supply is utilized for fluid milk and cream, less for manufactured products. (Page 5)

**Poultry and egg supplies** will continue plentiful, and only moderately higher prices are indicated, unless the demand for meat rises sharply. (Page 5)

**Feed supplies** will be adequate to support expanded livestock production, but inventories will be reduced and prices will rise. (Page 6)

**Soybeans**, as well as other fatty and oil-bearing materials, will continue in strong demand due largely to high industrial requirements. (Page 8)

**More wheat** is in prospect as additional acreage is devoted to production of this crop. Abundant supplies will limit prices to support levels unless unusual demand develops. (Page 8)

**Fruit and vegetable supplies** may increase in response to increased demand, but prices will average moderately higher in 1951 than in 1950. (Page 8)

**Strong demand for farm products** indicates that farmers should be planning their operations so as to obtain a sustained high level of production. (Page 8)

# The Farm Outlook for 1951<sup>1</sup>

## Demand Prospects Warrant All Out Production

A very strong demand for most farm products is in prospect for 1951, indicating that farmers should plan to make full use of their production capacity in the year ahead. A general easing or elimination of acreage controls and marketing quotas will permit expanded production, and favorable price prospects will provide incentive. With average weather total farm production probably will exceed the 1948 record. Production in 1950 is about three per cent below this mark.

With higher employment and rising incomes in the economy generally, farm product prices are likely to average about 10 per cent higher than in 1950, but still be well below the record high level reached in January 1948. Reflecting the higher prices, cash receipts from farm marketings in 1951 probably will increase at least 10 per cent, to a total of nearly 30.5 billion dollars. This would approximately equal the 1948 record. Farm production expenses may rise about six per cent above 1950, to a new record of about 20 billion dollars. The realized net income of farm operators—including, in addition to net cash income, the value of home-consumed farm products, the rental value of farm dwellings, and Government payments to farmers—probably will increase relatively more than cash farm income. An increase of 15 per cent, totaling around 15.3 billion dollars, is indicated. This would represent a recovery of about one-half of the decline in net farm income which has occurred since the record of 17.8 billion dollars was established in 1947 (see Chart 1).

### PRIVATE SPENDING INCREASED SHARPLY

Agriculture, of course, is influenced greatly by the

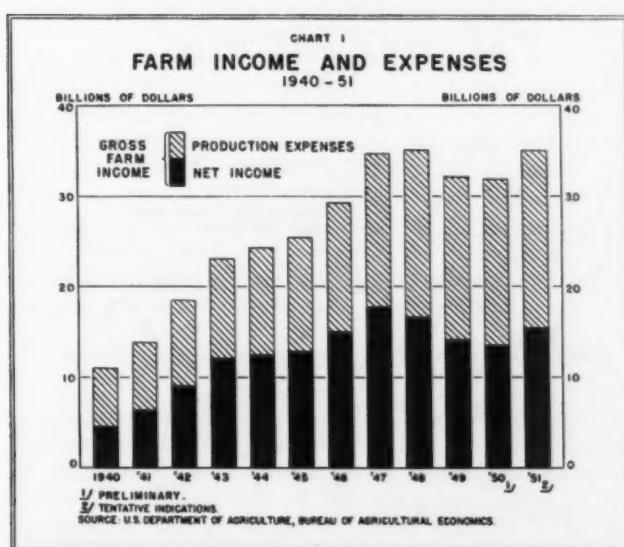
same factors that affect other parts of the economy. The sudden outbreak of war in Korea is the most important recent development affecting domestic economic prospects in 1951. Broad reconsideration of foreign policies and an important revision of both the amount and timing of defense expenditures have resulted. Present indications are that the rate of expenditure for defense purposes by mid-1951 will be around 30 billion dollars on an annual basis, approximately double the mid-1950 rate. The outbreak of hostilities in Korea occurred at a time when the United States' economy was already operating at a high and expanding level of production and consumption. Thus, the additional defense demands are superimposed on an economy in which several important resources were already fully employed.

In addition to very high levels of income, both individuals and businesses had at their command at mid-1950 a large pool of liquid financial resources from which they could increase expenditures. Moreover, both consumers and businesses had easy access to credit which likewise could be used to increase the rate of expenditure for current consumption, inventory accumulation, and capital equipment. All these sources of funds were drawn upon in the heavy wave of buying which followed the outbreak of hostilities in Korea, with the result that price advances already under way were sharply accelerated. Initially, farm product prices advanced more rapidly than prices of other commodities but more recently have stabilized while nonfarm product prices continued to advance (see Chart 2).

Government purchases of goods and services on the other hand increased only moderately in this period. The enlarged defense program was necessarily slow to get under way. Consequently, the post-Korea upsurge in production, prices, and incomes was almost entirely a result of private demand. In recent weeks this sharp upsurge in business activity has more or less leveled off, but private demand for goods and services continues at a high level.

### HIGHER TAXES NEEDED

Rising defense expenditures in the months ahead will increase the total demand for goods and services and tend to drive prices even higher. Since expenditures for defense purposes provide incomes to individuals but do not result in goods and services for which this income may be spent, a substantial inflationary potential is generated. It is necessary that the effects of this "excess" income be minimized if price stability is to be achieved.



<sup>1</sup>This material is based largely on discussions at the 28th Annual Agricultural Outlook Conference sponsored by the Bureau of Agricultural Economics at Washington, D. C., October 30 to November 3, 1950.

Economists generally agree that in this situation higher tax collections should be the primary tool used to balance over-all demand with over-all supply, supplemented by restrictions on credit, increased savings, and other measures. A moderate tax increase has been enacted and some credit restrictions applied. These apparently will not be adequate, however, to balance total demand and supply at current price levels. Some further tax increases are anticipated, but it is not likely that these will be sufficient to offset fully the inflationary effects of the enlarged defense program.

In addition to the increased Government demand for goods and services as a result of the stepped-up defense program, other factors promise to add to inflationary pressures. An increase in the size of the armed forces may drain as many as 1.5 million people from the labor force, producing labor shortages and strong upward pressure on wage rates. Individuals and businesses, if they believe that prices will continue upward during 1951, will probably be less willing to maintain or increase holdings of cash, savings accounts, and Government bonds.

Materials requirements for the defense program are expected to result in reduced supplies of some consumer goods, particularly consumer durables. In this situation, consumers probably will spend relatively more of their income for things that are available. This development is expected to be important for farm products generally in 1951 and especially important to producers of such highly desired commodities as meats and other animal products. Partly as a result of shortages of other goods, the volume of food consumed per person in 1951 may average two to three per cent higher than in this year.

Export demand for farm products is expected to be a little lower in the year ahead, with some reduction occurring in the physical volume of exports. Higher prices, however, may maintain the value of exports about equal to the three billion dollar total of the previous year. Appropriations for ECA and army aid to civilians in occupied areas, programs which financed two-thirds of agricultural exports in 1949-50, were reduced 40 per cent for the year ending June 30, 1951. The effect on the volume of agricultural exports is not expected to be correspondingly large, however, as more of the available funds are likely to be used for procurement in the United States. Also, the improving dollar situation abroad will permit larger purchases aside from the foreign aid programs.

All things considered, total personal income, which was at an annual rate of about 224 billion dollars in the third quarter of 1950, may increase as much as 10 to 15 per cent by the third quarter of 1951, and the rate of personal consumption expenditures may increase four to eight per cent. Prospects are that the expanding demand for goods and services will generate increases in incomes and expenditures at a sufficiently rapid rate to over-balance the effects of tax increases and other control measures. Every indication points to a net upward movement of prices in 1951 with agriculture participating in this general trend.

Prices of all farm products are not affected equally by rising levels of income and demand (see Chart 3). Individual commodities differ as to their supply situation, storability, prospective requirements, and possibilities for increased production. The sharpest price rises in 1950 have occurred for cotton, oil-bearing crops, and meat animals. These commodities, along with feed grains, also appear to be in particularly strong positions for the year ahead.

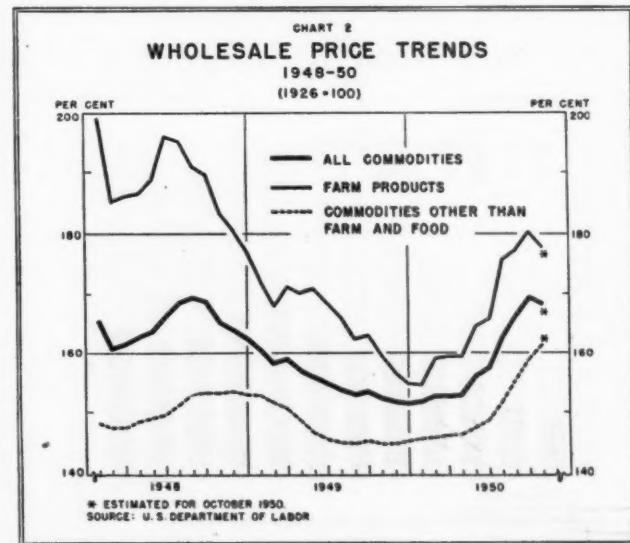
#### FARMERS' FINANCIAL POSITION IMPROVES

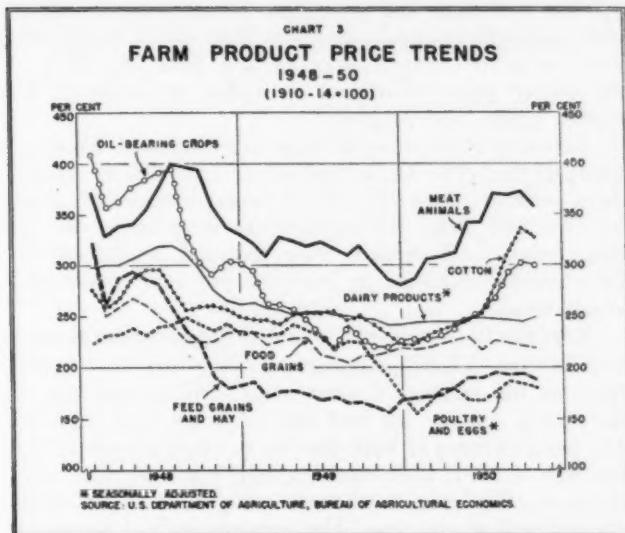
Total farm assets are estimated to increase about six per cent in value during 1950 bringing them to an all-time high in excess of 134 billion dollars on January 1, 1951. This would be about five per cent above the previous peak reached two years earlier.

Farm real estate accounts for about one-half of the value of agricultural assets. An estimated increase of about eight per cent in the value of real estate during 1950 indicates that the previous peak reached in November 1948 will be exceeded by the end of the present year. Further increases are in prospect for 1951.

Non-real-estate physical assets increased in value during the current year due to price increases for livestock and crops and to some increase in inventories of farm machinery and household items. These assets are expected to reach a value of about 45 billion dollars at the beginning of 1951, up six per cent from a year earlier.

Financial assets of farmers, including currency, bank deposits, U. S. Savings Bonds, and investments in cooperatives, appear to have declined slightly during 1950 and are expected to total about 21.6 billion dollars on January 1, 1951. The decline results from lower net farm income than in the preceding year and a higher than usual rate of conversion of deposits and savings bonds into tangible goods. Farmers' purchases of United States Savings Bonds had been declining gradually since 1947 and showed a further sharp decline following the





outbreak of hostilities in Korea. Also, the amount of bonds cashed by farmers had been increasing gradually. This trend likewise showed a sharp acceleration in the third quarter of 1950. The total value of bonds held by farmers has been relatively well maintained, however, due to the accumulating interest on holdings. This amounts to about 120 million dollars annually.

Both farm real estate and non-real-estate debts increased during 1950, and it appears that the rise will continue through 1951. Farm mortgage debt, after reaching a postwar low of 4.7 billion dollars at the beginning of 1946, increased a total of 16 per cent in the four ensuing years. The rise was accelerated in 1950 and is estimated to bring the total farm mortgage debt on January 1, 1951, to about five and three-quarter billion dollars. A further increase probably will occur in the year ahead.

Non-real-estate indebtedness of farmers (excluding CCC loans) continued the postwar uptrend during 1950 and probably will show a 10 per cent increase at year-end to a total of about 5.6 billion dollars. Such loans to farmers by member banks in the Seventh Federal Reserve District increased 23 per cent in the first nine months of 1950. This large rise was partly seasonal, but the trend has been sharply upward.

The relatively greater increase in farm assets than in farm debts is expected to result in an increase of about six per cent in proprietors' equities during the present year. This would raise equities to a total of about 121.5 billion dollars on January 1, 1951. If current estimates of net farm income in 1951 are realized, proprietors' equities will increase further in the year ahead.

#### REAL ESTATE VALUES ADVANCE

Farm real estate values in the United States declined moderately from the peak reached in the fourth quarter of 1948 but turned upward again in 1950. Values rose slowly in the first half of the year, but following the outbreak of war in Korea advanced sharply. Both the improved outlook for farm income and the desire on

the part of farmers and nonfarmers alike to invest in farm land as an inflation hedge were responsible for the increased demand for farm land and the sharp advance in values.

In some areas there has been a pickup in the volume of farm transfers, but this is generally limited by the small number of farms offered for sale. In the Seventh Federal Reserve District, Iowa has experienced the greatest increase in both real estate values and volume of farm transfers. Strictly dairy areas have generally shown only a limited increase in values, probably because of the relatively less favorable outlook for dairy product prices than for other commodities. The difficulty of obtaining skilled dairy labor in a tightening labor market also may be a restraining factor.

Farm real estate taxes are at a record high level and are expected to increase further as costs of operating local governmental units rise. This factor has an important influence on real estate values in some areas but is not expected to keep most land values from advancing in 1951. Trends in prices of farm products and net farm income, as well as expectations relative to these trends, will be the most important factors influencing the future course of farm real estate values. While these forces could be reversed, present indications suggest that farm real estate values are more likely to increase than decrease in the next several years. Anyone definitely planning to purchase a farm within that time probably will gain little by waiting for lower prices.

#### FARM PRODUCTION COSTS TO INCREASE

Cash farm production expenses will total about 18.5 billion dollars in 1950, up about three per cent from the preceding year. Higher prices and an increased volume of production items, associated with expanding agricultural production, indicate a further increase of about six per cent in 1951. While most farm production supplies will be available in sufficient quantity to meet requirements, there will be some shortages.

Retail prices of farm machinery are expected to reach a new record. Supplies probably will be adequate to meet all urgent farm production requirements although shortages, particularly of some of the newer machines, probably will develop. Manufacturing capacity of the farm machinery industry is now greater than ever before, but materials shortages and production of trucks, tractors, and other items for military use will combine to hold civilian production in 1951 below the 1950 level. Farmers, however, have purchased relatively large amounts of machinery in each of the past 10 years except 1943. Thus, agriculture is well equipped to take on the large-scale production job now at hand. Retail prices of gasoline and other petroleum products probably will be higher than in any recent year, but generally adequate supplies are in prospect. Prices of tires may advance in 1951, but necessary supplies probably will be available.

Building materials prices increased during 1950 and are expected to average somewhat higher in 1951. Supplies will be inadequate to meet all demands, but severe

shortages probably will not be experienced unless the defense program is stepped up considerably more than now indicated. Prices of insecticides and fungicides probably will be higher than in the past production season. A relatively small carry-over from 1950 and rising military requirements for some of the raw materials used in insecticides will reduce the total supply of some items in 1951. It is expected, however, that most seasonal needs will be met. An anticipated large increase in cotton acreage may result in a sharply increased demand for insecticides for this crop, not all of which will be filled.

Fertilizer prices declined slightly in 1950 but will be somewhat higher in 1951. The favorable relationship between prices of farm products and fertilizers, however, will make it profitable for farmers to make relatively heavy applications. Use of commercial fertilizer has about tripled since prewar. Current prospects indicate that enough materials will be available in 1951 to permit about a 10 per cent increase in output. Farmers probably would purchase even more than this amount, if available. Grass and legume seed prices are expected to be lower than in 1950; livestock feeds will cost more; supplies of both will be generally adequate.

Farmers who use hired labor will probably have some difficulty obtaining men and can expect to pay higher wage rates than in 1950. Both the increased military requirements and the strong demand for labor in industry will reduce the supply available to farmers. In the Midwest area, however, critical shortages are not expected to occur. Social security returns must be filed by employers of farm workers in 1951 for the first time. Although farm costs generally will be higher in 1951, they probably will not increase as much as prices of farm products. Thus, farmers can expect this will result in a more favorable price-cost ratio than prevailed in 1950.

#### LIVESTOCK AND MEAT PRODUCTION TO EXPAND

Production of meat, including poultry, in 1951 is expected to exceed 28 billion pounds, approximately four per cent above the 1950 output. This increase is encouraged by the recent expansion of cattle and hog numbers, by large feed supplies, and by the increased demand for meat. After allowing for larger military requirements, civilian meat consumption per capita in 1951 is estimated to be 180 pounds compared with 176 pounds in 1950. Although considerably above prewar levels, this would be somewhat less than the 184 pounds consumed in 1944 (see Chart 4).

Prices of meat and meat animals are likely to be higher in 1951 if defense expenditures result in increased consumer disposable income. The retail value of meat consumed per person is closely related to disposable income per person (see Chart 5). During periods of full employment and shortages of other consumer goods, more than the usual proportion of disposable income is spent for meat. Large defense expenditures scheduled for 1951 may result in such a spending pattern during the coming year. This would tend to increase the price of meat. Increased meat production, however, and price controls, if

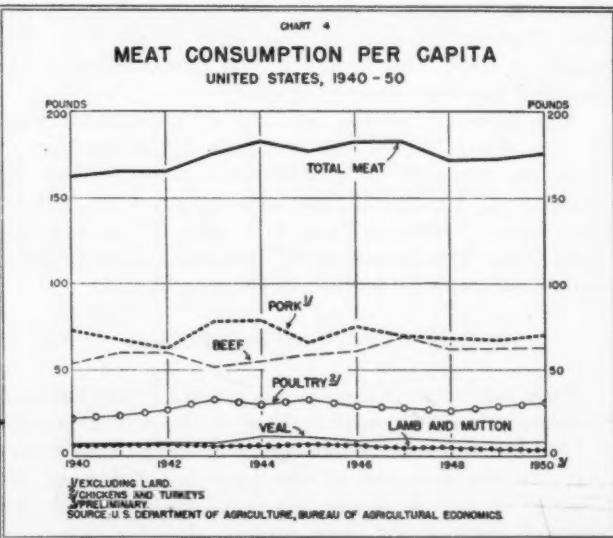
applied, will limit the price rise. Under present legislation price ceilings can be no lower than either the highest price received between May 24 and June 24, 1950, or the parity price, whichever is higher, as adjusted for season, grade, and location.

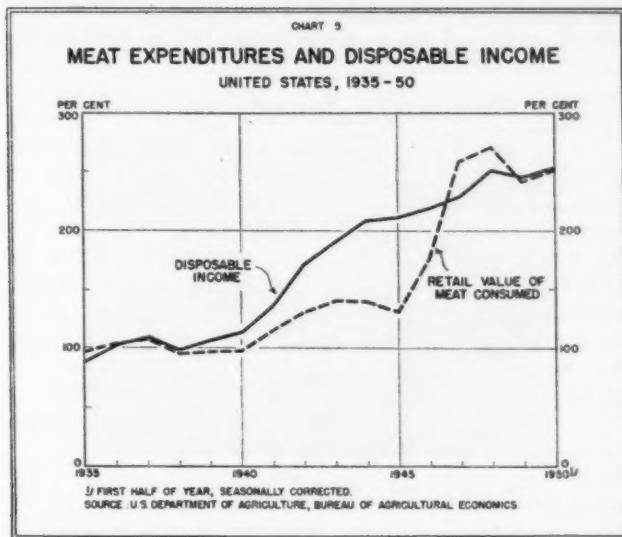
Farmers' cash receipts from livestock and livestock products for 1950 are estimated at 15.8 billion dollars, three per cent above 1949. Prices averaged about the same in 1949 and 1950, but marketings were larger in the latter year. Cash receipts from livestock marketings in 1951 are likely to be at least 10 per cent above this year's total.

**Beef Cattle**—More cattle probably will be slaughtered in 1951 than in 1950. Numbers on farms and ranches will continue the increase evident since 1947 in response to the strong demand for beef and adequate feed supplies. The better grades of beef may be in short supply in the first half of 1951, with resulting high prices at that time. However, increased cattle marketings are expected in the last half of the year. The increase in beef output is likely to be smaller than for pork, since present beef and veal production is high in relation to current cattle numbers.

Cattle feeding will continue at a high level this winter and in most or all of 1951. Supplies of feeder cattle and calves, however, will be limited for the coming year by the strong competing demand for cattle for breeding. This situation is reflected in the high prices of both breeding and feeding cattle. Movement of cattle into feed lots since July 1 is somewhat below the heavy movement of last year but above previous years. The fall run of cattle from the range area is also later than last year. Recent shipments contain a high percentage of light-weight steers and calves, suggesting long-term feeding. Extensive grain feeding of cattle should result in heavy average slaughter weights and will help to increase the quantity and quality of beef in 1951.

Net income from beef cattle feeding probably will be under that of 1950 due primarily to higher feeder cattle prices and increased feed costs. In view of the larger





cattle slaughter and beef output in prospect, the increase in consumer income in 1951 probably will result in only moderately higher cattle prices.

**Hogs**—Hog numbers will continue to expand from the low point in 1946. The 1951 spring pig crop will be about five per cent above that of 1950, and including the fall crop, the year's total will likely exceed the peacetime record of 99 million head produced this year. The increase in hog numbers and expected heavier slaughter weights will boost pork production in 1951 five to seven per cent above that of 1950. Early 1951 supplies will reflect this year's increased spring pig crop, while slaughter in the spring and summer will reflect the increased 1950 fall crop, up five per cent over last year. The larger spring crop in prospect for next year will show up in late 1951 pork production.

Hog prices are expected to be above the 1950 level, but with the increase being more marked during the first part of the year. Since prices advanced during 1950, the 1951 margin over this year's prices is expected to decline as the year progresses.

**Sheep, Lambs, and Wool**—Sheep and lamb numbers on farms in 1951 may increase slightly from the 1950 record low. Any increase will likely be in native farm flocks rather than in range flocks where labor is extremely scarce. Prices for sheep and lambs are favorable, but production of lamb and mutton is not likely to equal the 1950 supply, the smallest since 1925. An important consideration will be the number of lambs used to rebuild flocks. If rebuilding efforts are widespread, per capita consumption of lamb and mutton will be less than the 1950 record low of 3.9 pounds. Lamb prices have shown little seasonal decline this year and appear very favorable not only for 1951 but for several years to come.

The price of wool rose sharply this year to a record high. Demand is heavy, and both United States and world supplies are at low levels. Since increased wool production is dependent upon increasing sheep and lamb numbers, the wool price outlook is very favorable.

#### DAIRY INCOME TO RISE MODERATELY

Farmers' cash income from marketings of dairy products in 1951 should be moderately above this year's indicated 3.8 billion dollars. However, it is unlikely to exceed the 4.4 billion peak reached in 1948. Cash receipts from dairy products will probably show relatively less gain than that for other agricultural products; nonetheless, increased incomes from marketings probably will be greater than increased production expense. Net income for dairy farmers, therefore, will be somewhat higher in 1951 than in either of the previous two years.

Milk production in 1951 is expected to continue at about the 1950 level of 121 billion pounds. Cow numbers will show little change. Sufficient feed supplies and long-term improvements in dairy herd management and feeding practices should result in milk production per cow at least equal to the 1950 rate. Relatively high cash grain and meat animal prices, of course, will induce some farmers to emphasize production of these products in preference to milk.

Increased consumer income is expected to step up the demand for dairy products. With prospects of a generally rising price level, demand from private storage operation will also be strong, providing greater support to dairy product prices than in 1949 or 1950. Imports of dairy products may rise in 1951 and exports may decline further, but these factors are of minor importance in the over-all dairy situation.

A significant shift in utilization of milk is in prospect. Record amounts may be sold as fluid milk and cream, reflecting the effects of increased consumer income on the demand for these products, and less milk used for butter and cheese production (see Chart 6). Farmers situated so they can supply a fluid milk market probably will benefit more from the higher consumer income in 1951 than those who must sell milk for manufacture into butter and cheese. Large butter and cheese stocks in Government and commercial storage would permit increased per capita consumption of both in 1951 even though production is curtailed somewhat.

Dairy product prices will average higher than in 1950. Price rises should be limited, however, by the large stocks on hand and a less rapid response of dairy products to changes in consumer income than for most other foods. Government price support purchases next year are not expected to be as large as the record 1950 volume when the equivalent of more than three per cent of total milk production was acquired. Support of dairy product prices is scheduled to continue at present levels through March 31, 1951. At that time the support program may be changed but, in accordance with present law, must be continued at 75 to 90 per cent of parity.

#### POULTRY AND EGG SUPPLIES TO CONTINUE PLENTIFUL

Over-all production of poultry products in 1951 is expected to be slightly smaller than the large output of this year. The 1950 production of both eggs and turkeys is the largest on record. Potential layers on

farms January 1, 1951, will number about two per cent less than the 442 million the year before, but probable increased production per hen will result in as many eggs produced in the first half of 1951 as in the first half of the current year. Lower spring egg prices and higher fall egg prices are in prospect with the annual average likely to be somewhat above this year's level (see Chart 7). Since the Government has discontinued its dried egg program, supplies for consumers may be even larger than in 1950, serving as a restraining factor on prices throughout the year. No commitments have been made for supporting egg prices beyond December 31, 1950. However, there is some prospect that any future egg program will be confined to the purchase of shell eggs on a grade basis for distribution through the school lunch program and similar outlets. The present program has been an important outlet for low quality and surplus Midwestern eggs. Its elimination may have a significant effect on 1951 egg prices in this area. Since prices of eggs, chickens, and turkeys are below parity, price ceilings for these products are not expected in the near future.

Feed supplies are plentiful, but increased prices will result in poultry ration costs higher than in 1950. The egg-feed price ratio early next year will have a great influence on numbers of hens kept and pullets raised for egg production.

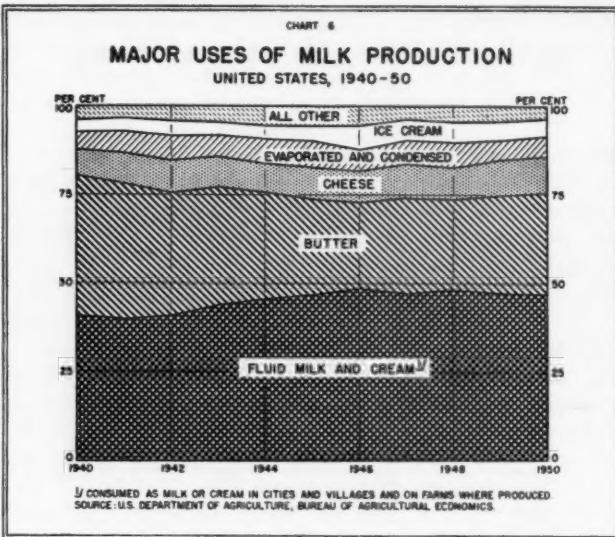
Commercial broiler production continues to expand, and 1951 supplies may set a new record. This would offset the anticipated decrease in farm-produced chickens. Since supplies of both poultry meat and eggs will be plentiful, prices are unlikely to rise as much as for most other foods unless a meat shortage should develop. Consumer interest in broiler and other poultry meat will grow as prices of "red meat" rise or remain at high levels. Large markets and feed supplies near at hand indicate the possibility for increased broiler production in the Midwest, but poultry production techniques in this area need to be improved before the bulk of producers operate profitably.

The 1951 production of turkeys will, in a large measure, depend upon the experience of growers in disposing of this year's record crop. If the turkey-feed price ratio continues in about its present relationship for the next few months, production may be well maintained.

Cash farm receipts from poultry products in 1950 are estimated as follows: eggs, 1,420 million dollars; farm chickens, 485 million; broilers, 455 million; turkeys, 250 million. The total of 2,650 million dollars is about 13 per cent below 1949 receipts. The gross income of poultrymen in 1951 is likely to be somewhat higher than in 1950, but due to increased costs net income will not rise materially.

#### FEED SUPPLIES STILL ADEQUATE

Total feed grain supplies for the 1950-51 marketing year are slightly below the 1949-50 record, but appear adequate to provide for liberal livestock feeding and increased meat production (see Table 1). The 1950 pro-



duction of feed grains was 123 million tons, slightly below 1949 but still the fourth largest on record. Carry-over stocks of corn, oats, and barley into the current feeding year are approximately 31 million tons, nearly double the prewar average. The CCC held nearly 17 million tons of this carry-over under price support. In addition, it owned most of the largest carry-over (60 million bushels) of grain sorghums on record. Some reduction in stocks is likely, but the carry-over at the end of the 1950-51 feeding season undoubtedly will continue large.

Total utilization of feed grains will likely be heavier in 1950-51 than in 1949-50 and may exceed the 1950 production. Prices are rising, and farmers will likely place less feed grains under price support this year than last. A reduction of CCC stocks is in prospect since feed-grain prices are expected to exceed support levels. Prices of high-protein feeds are generally lower this fall than last and are much lower in relation to prices of feed grains. These feeds will undoubtedly rise in price in 1951, but prices may continue lower in relation to feed grains than in 1949-50.

**Corn**—The corn supply, estimated at 4,000 million bushels for 1950-51, is about five per cent below the record supply of last year but exceeds the prewar average by a billion bushels. The 1950 crop of 3,105 million bushels is well above prewar production but 273 million bushels below the large crop of 1949 and 577 million bushels below the record crop of 1948. Although unfavorable weather was responsible for soft corn in some areas, the bulk of the crop is of good quality. The October 1, 1950 carry-over of 859 million bushels is the largest on record. Of this amount, two-thirds was under loan or in Government ownership.

The 1950-51 utilization of corn, both domestic and export, is expected to surpass the record of 3.3 billion bushels in 1949-50 due largely to increased use for feed. Exports, food, and industrial uses are expected to be moderately higher than last year. Carry-over stocks of corn next October 1 are likely to range from 200 to 300 million bushels under this year's record figure.

The 1951 acreage and production of corn probably will exceed that of 1950, particularly in the important "commercial area." The Secretary of Agriculture has announced that acreage restrictions will be eased to permit increased plantings so as to provide sufficient feed to support increased livestock production.

Corn prices in 1951 will be higher than in 1950 and may exceed the loan level. The national average support price for the 1950 crop corn is \$1.47 per bushel, seven cents higher than for the 1949 crop. Present law requires support of the 1951 crop at 80 to 90 per cent of parity; the actual support level probably will be little different from that for the current year. The market price has not shown the usual seasonal decline this fall due to farmers' willingness to store corn in anticipation of higher prices.

**Oats**—The 1950-51 supply of oats is estimated at 1,722 million bushels, third largest supply on record. Oat production this year was 161 million bushels greater than in 1949 and only four per cent smaller than the record crop of 1945. The carry-over of 218 million bushels on July 1 was small compared to most recent years, but well above prewar amounts.

The utilization of oats in 1950-51 is likely to be a little larger than in 1949-50 due primarily to heavier feeding. Other domestic uses and exports will probably change little from this year. The carry-over in 1951 from this year's huge supply is anticipated to be somewhat larger than the 1950 carry-over. Price support for oats probably will be available at a level determined by its feeding value relative to corn. Market prices, however, may exceed the support level. Acreage seeded in 1951 will meet pressure from increased plantings of corn and wheat and probably will be somewhat less than for 1950.

**Barley**—Barley production in 1950 was 26 per cent above 1949, reflecting a favorable growing season and an 18 per cent acreage increase from the low of 1949. The estimated supply in October was around 400 million bushels, largest since 1943 and 12 per cent above the supply last year. Imports in 1949-50 were 18 million

bushels and probably will continue at about this level next year.

More barley may be utilized as livestock feed in 1950-51 than in either of the past two years. Quantities needed for increased alcohol requirements and consumer demand for malt and malt products are estimated to exceed 1949-50 utilization by 10 per cent. Exports of barley and barley malt are likely to show little change. Carry-over of barley at the end of next year probably will be larger than in 1950. Less barley has gone under price support this year than in the past two years. Acreage planted for 1951 is likely to be about the same as in 1950. Price support is not required, but probably will be authorized at a rate based on its feeding value relative to corn.

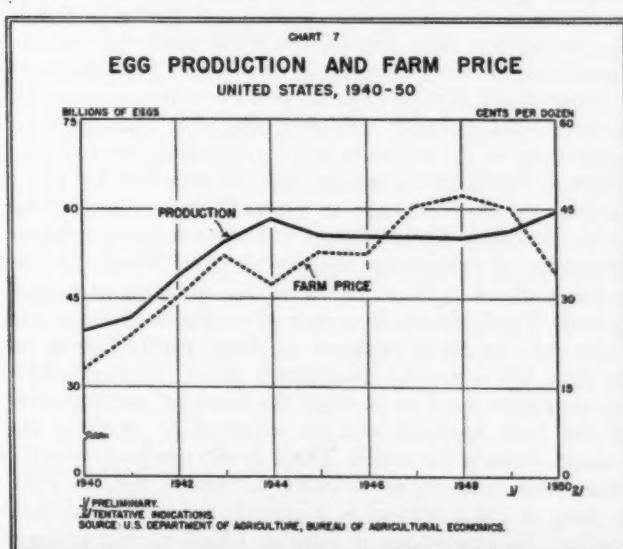
**By-Product Feeds**—By-product feed supplies for 1950-51 should be as large as in the past two years and one-third above the prewar level. Supplies of high protein feeds have increased in recent years, and the 1950-51 supply will probably equal the record supply of last year. Demand for these feeds will continue strong, since larger supplies are required to supplement heavy grain feeding of increased livestock numbers. Wheat mill feed production has declined as less wheat has been milled for export as flour. Prices of most by-product feeds are expected to average higher in 1950-51 than in 1949-50.

**Livestock-Feed Price Ratios**—Prices of livestock and livestock products are expected to be as high relative to feed prices in 1950-51 as in 1949-50, although both groups of prices are expected to be generally higher. Returns from feed fed are expected to be generally favorable for meat animals and whole milk but only average for butterfat, poultry, and eggs.

The hog-corn ratio in 1950-51 should be close to the 1949-50 average of 14.1, which compares favorably with the long-term average of about 12.0. Prices of whole milk are likely to be a little higher relative to feed prices than in 1949-50 and close to the long-time average.

**Hay and Pasture**—The total hay supply of 123 million tons is the second largest on record both in total and in relation to the number of roughage-consuming animal units on farms (see Table 1). Local shortages of hay are much less marked than during the past two years. However, the quality of this year's crop is below average in many regions where heavy rainfall prevented proper curing and harvesting. The number of roughage-consuming animals will be larger in 1950-51 than in 1949-50 since the increase in cattle numbers is expected to more than offset the continued downtrend in horse and mule numbers. Prices of hay in 1951 are likely to average about the same or slightly higher than this year.

Pastures and other forage crops were favored with good weather in 1950 resulting in a long pasture and range season. More general use of good pasture management and soil treatment practices in many areas has increased the carrying capacity of pastures and added to the total roughage supply. The effects of such practices will be increasingly evident in future years and the increased forage produced will be especially important in expanding production of beef cattle and sheep.



## DEMAND FOR FATS AND OILS TO CONTINUE STRONG

Prices of most fats and oils are expected to average higher than in 1949-50 due largely to increased industrial activity and consumer income in 1950-51. Both domestic and export demand will be strong. Production is expected to be from 11.7 to 11.8 billion pounds, slightly below the 1949-50 level. Increases in output of soybean oil, tallow, lard, and greases will not be enough to offset declines in production of cottonseed oil, peanut oil, and butter. Disappearance of fats and oils may exceed this year's level.

**Soybeans**—The 1950 production of 281 million bushels of soybeans is the largest crop on record, well above that of any previous year. A support price of \$2.06 per bushel has been announced, compared to \$2.11 for last year's crop, but the market currently is well above this level. Despite the large crop, the season average price for soybeans is likely to be at least as high as the \$2.12 average for the 1949 crop.

Domestic demand for soybeans will reflect the heavy demand for soybean oil meal for livestock feeding as well as the demand for soybean oil. Exports of soybeans and soybean oil will be large again in 1950-51. Supplies of these items are large in relation to previous years, while supplies of cottonseed oil and peanuts are relatively low. Soybean and soybean oil prices are likely to be low in relation to prices of all other domestic fats and oils, except lard, and strongly competitive with most fats and oils on the world market. The export outlook for soybeans and soybean oil depends to some extent on the quantity of exports that Manchuria sends to Europe. Since acreages of corn and cotton are to be increased materially next year, soybean acreage and production in 1950-51 are likely to be somewhat below this year's record level. Price support for the 1951 crop is not mandatory but probably will be provided.

## WHEAT PRODUCTION TO INCREASE

The wheat acreage allotment for 1951 was set at 72.8 million acres, two per cent above the seedings for the 1950 crop. There is some indication that this allotment will be overplanted. With normal yields the allotted acreage would produce a 1951 crop of 1,150 million bushels, 14 per cent above this year's crop. This amount plus the estimated carry-over of 450 million bushels on July 1, 1951, would result in a total supply of 1,600 million bushels for 1951-52. Assuming that domestic consumption and exports remain at current-year levels, the carry-over on July 1, 1952, would amount to 620 million bushels. This would nearly equal the 1942 record high of 631 million bushels and would provide a substantial reserve for emergency use.

Marketing quotas will not be invoked on the 1951 crop. The support price will be no less than \$1.99 per bushel, and if parity is higher at the beginning of the 1951-52 marketing year, the support price will be increased to reflect 90 per cent of parity at that time. Exports will depend on the size of production in other

countries, competition of rice supplies in the Far East, and the opportunity for importers to procure wheat from non-dollar sources.

## MORE FRUITS AND VEGETABLES IN PROSPECT

Expected high employment and increased consumer income in 1951 are expected to provide a stronger demand for vegetables than in 1950. Shipments of truck crops for the fresh market are likely to be up slightly, and price and production prospects are generally favorable. Increased military requirements and a strong consumer demand will encourage commercial canners to obtain larger acreages and packs of most vegetables in 1951 than in 1950. This should be especially true of tomatoes and peas. Frozen vegetable consumption will remain high, but retail prices are not expected to advance much in 1951 as current stocks are at record levels. Increased domestic and military needs are reducing present large stocks of dry edible beans, but supplies should be ample until the 1951 crop is harvested. Demand for dry field peas in 1951 is likely to be stronger than in 1950 but weak in relation to World War II demand. Potato prices will not be supported in 1951, and in view of possible lower prices some producers may shift to other crops. Despite this fact, production is likely to exceed the expected domestic and export needs.

Increased domestic production will result in larger fruit supplies in 1951, and a higher per capita consumption seems likely despite an expected increase in exports. A stronger demand should maintain most fruit prices near 1950 levels, but citrus fruit prices are expected to be lower this fall and winter than a year earlier. Small stocks of canned and dried fruits will result in increased demand by processors for canning and drying. Imports of tropical fruits will probably continue at present levels.

## THE MEANING OF THE OUTLOOK

The agricultural outlook for 1951 has important implications for country bankers as well as farmers. It should be recognized that the factors responsible for current uncertainties in international relations and increased United States defense expenditures may well continue for several years. Farmers, therefore, should be planning their operations so as to obtain a sustained high level of production. Additional financing will be required by many farmers as they attempt to expand output. Production costs are rising. Some farmers will want to carry a larger inventory of production supplies so as to avoid the disrupting effects of "slow deliveries" or shortages at critical periods. Furthermore, in a year of strong to rising prices there may be some tendency to delay marketings so as to take advantage of anticipated price increases. Such developments tend to increase the financial requirements of the farm business and are expected to result in increased demand for credit. These credit needs are mostly short term and should involve no undue risk in 1951 so long as the borrower is a capable farm operator and confines his operations to lines in which he has demon-

strated skill. Farm real estate values generally are high if judged in terms of historical prices but reasonable if judged in terms of current earning capacity. Skilled farm operators or others who are financially ready to assume farm ownership probably cannot expect to purchase land much below present values within the next few years.

Shortages of some types of farm machinery may occur in 1951, and this could lead to overbuying of available items, fearing more severe shortages later on. In the present situation farmers should plan to keep their farms adequately equipped for efficient operation but avoid investing in machinery which is poorly adapted to the needs of the farm.

Not only are prices of farm production supplies likely to be higher in 1951, but there is a long-run trend toward the purchase of more goods and services by farmers. As a result, cash production expenses account for an increasing proportion of gross income. Since farm costs tend to change less rapidly than farm income, this trend makes agriculture more vulnerable to the consequences of downward price adjustments, and as such it merits attention from both farmers and agricultural credit agencies. The ability to exercise effective control over costs may well be an increasingly important characteristic of efficient managers and good credit risks.

#### FEED SUPPLIES AND UTILIZATION 1937-41 AVERAGE, 1949, AND 1950

(Millions of tons)

Item	1937-41 Average	1949 <sup>1</sup>	1950 <sup>2</sup>
<b>Concentrates</b>			
Carry-over Stocks, beginning of crop year <sup>3</sup>	16.9	30.3	31.0
Production			
Corn	72.1	94.6	87.3
Oats	18.1	21.2	23.7
Barley	6.9	5.7	7.2
Sorghum grains	2.2	4.3	5.2
Total feed grains produced	99.3	125.8	123.4
Other grains for feed <sup>4</sup>	4.8	5.8	6.0
By-product feeds for feed	15.4	20.5	20.2
Total supply of concentrates	136.4	182.4	180.6
Utilization			
Domestic feed grains fed	85.3	107.4	109.9
Domestic wheat and rye fed	4.6	5.0	5.0
Oilseed cake and meal fed	3.9	7.8	7.8
Animal proteins fed	2.9	2.4	2.4
Other by-product feeds	8.6	10.3	10.0
Total concentrates fed	105.3	132.9	135.1
Feed grains for seed, human food, industry, and export	12.1	17.2	19.0
Total utilization	117.4	150.1	154.1
Total utilization (adjusted to crop-year basis)	116.5	151.4	155.6
Stocks at end of crop year <sup>5</sup>	19.9	31.0	25.0
Number of grain-consuming animal units fed annually October-September (million)	153.1	169.0	170.0
Supply of all concentrates per animal unit (ton)	.89	1.08	1.06
Concentrates fed per animal unit (ton)	.69	.79	.79
<b>Hay</b>			
Carry-over, beginning of crop year <sup>6</sup>	12.4	15.1	14.9
Production	90.5	99.3	107.9
Total supply of hay	102.9	114.4	122.8
Total utilization	89.0	99.5	102.2 <sup>7</sup>
Carry-over, end of crop year <sup>8</sup>	13.0	14.9	20.6 <sup>7</sup>
Supply per animal unit (ton)	1.45	1.67	1.75
Disappearance per animal unit (ton)	1.26	1.45	1.46
Roughage-consuming animal units fed annually (million)	70.8	68.7	70.0

<sup>1</sup>Preliminary.

<sup>2</sup>Based on indications in October 1951. Tentative estimates of utilization and carry-over.

<sup>3</sup>Stocks in all positions of corn on October 1, and oats and barley on July 1.

<sup>4</sup>Imported grain, domestic wheat, and rye fed.

<sup>5</sup>Farm carry-over on year beginning May 1.

<sup>6</sup>Estimated utilization based on 1946-49 average disappearance per animal unit and 1950 numbers of roughage-consuming animal units.

<sup>7</sup>Estimated October 1, 1950 indications for May 1, 1951.

SOURCE: *The Feed Situation*, October 1950, Bureau of Agricultural Economics, U.S. Department of Agriculture.

The high replacement cost of farm buildings makes it important that insurance policies be reviewed so as to make sure adequate coverage is carried on all buildings essential to efficient farm operation. Otherwise, the replacement of buildings might easily jeopardize the financial stability of a farm business. The high replacement cost of improvements is important also when purchasing a farm. Frequently, it is cheaper to purchase a well-improved farm than to add improvements.

The outlook indicates ready markets for increased supplies of meat, particularly beef. This has led to much interest in the establishment of breeding herds on both farms and ranches. Farms which are well adapted to the maintenance of a beef cow herd will do well to emphasize this enterprise in the years ahead. It should be recognized, however, that a substantial increase in beef supply will materialize when the amount of stock retained to increase herds in recent years is reduced to a more normal level. At that time, possibly about 1953, beef prices probably will adjust to a more normal level relative to pork, and profit margins in beef production may narrow. This possibility should be considered when financing establishment of beef breeding herds.

One of the most effective ways for many farmers to expand production and farm income is through improved soil management. Corn Belt soils should receive fertilizer and lime applications wherever the resulting increased production makes this practice profitable. Also, the cropping system and tillage practices should be designed to maintain the soil in a state of high productivity as well as to yield a large output currently. On most farms there is no type of expenditure which will show better returns over a period of years than investment in needed soil improvements. Credit extended to good operators for this purpose should contribute materially to increased production and be profitable for both borrower and lender.

The financial status of individual farmers varies so widely that only the most general statements can be made with regard to farm financial planning for 1951. Farmers with heavy debts probably should attempt to reduce them to levels which could be handled readily with reduced income. Where possible, inefficient farm units should be developed so as to be capable of providing a more reasonable income if the farm family plans to make it the sole source of their livelihood. The incurring of debt for this purpose should be delayed no longer than necessary. In those cases where the farm cannot be developed into a more adequate unit, 1951 probably would be a good year to shift to other employment and rent or sell the farm. Farmers with surplus funds to invest should develop a well-rounded program including life insurance, savings deposits, United States Savings Bonds, and farm real estate or other property which will change in value with changes in the general price level. The relative amounts of different types of investments will vary, of course, with the needs of each family. When planning the disposition of farm income, expenditures which will contribute to the comforts and satisfactions of farm family living should receive adequate consideration.

**SEVENTH FEDERAL**



**RESERVE DISTRICT**

